# Message Text

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 6592

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY MOSCOW

BEN/AMCONSUG OPORTO 2405

AMEMBASSY PARIS

AMCONSUL PONTA DELADA

USMISSION USNATO

DIA WASH DC

USNMR SHAPE BEL

COMUSFORAZ

USCINCEUR VAIHINGEN GER

AMEMBASSY RMME

AMEMBASSY BRUSSELS

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USEEC

E.O. 11652: XGDS-3 TAGS: PINT PO

SUBJ: CONVERSATION WITH FREITAS DO AMARAL

REF: LISBON 5778

1. BEGIN SUMMARY. I HAD A LENGTHY CONVERSATION TODAY WITH DIOGO FREITAS DO AMARAL, THE PRESIDENT OF THE CENTER DEMOCRATS (CDS). HE WENT INTO CONSIDERABLE DETAIL REGARDING CONFIDENTIAL

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THE GRIEVANCES WHICH CULMINATED IN THE CDS BREAK WITH THE SOCIALISTS AND THE DOWNFALL OF THE SECOND CONSTITUTIONAL GOVERNMENT. THE CDS BELIEVES THAT A GOVERNMENT OF PRESIDENTIAL INITIATIVE TO PREPARE THE COUNTRY FOR ELECTIONS IS THE ONLY VIABLE SOLUTION AT PRESENT. HE AGREED THAT SOCIALIST PARTICIPATION IN SUCH A GOVERNMENT WOULD BE ALMOST ESSENTIAL IF THE COUNTRY IS TO AVOID A

DETERIORATION IN THE ECONOMIC SITUATION DURING THE FIVE-OR SIX-MONTH PERIOD BEFORE ELECTIONS. HE IS SEEING SOARES TOMORROW AND WILL TRY TO PERSUADE HIM TO PERMIT SOCIALISTS TO PARTICIPATE IN SUCH A GOVERNMENT. HE ALSO AGREED WITH ME THAT A DIALOGUE BETWEEN THE PRESIDENT AND SOARES WAS ESSENTIAL AND SAID THAT HE WILL ALSO BE SEEING EANES THIS WEEKEND AND WILL ENCOURAGE THE PRESIDENT TO TAKE THE FIRST STEP TO INITIATE SUCH A DIALOGUE. END SUMMARY.

- 2. I AM REPORTING IN SOME DETAIL FREITAS DO AMARAL'S ACCOUNT OF THE EVENTS THAT LED UP TO THE CDS RUPTURE WITH THE SOCIALISTS BECAUSE I BELIEVE THAT THEY ILLUSTRATE SOME OF THE UNDERLYING DIFFICULTIES THAT WILL BE FACED BY ANY FUTURE GOVERNMENT WHICH ASPIRES TO SOLVE PORTUGAL'S ECONOMIC PROBLEMS AND MAINTAIN MINIMUM OF SOCIAL AND POLITICAL STABILITY.
- 3. PARTY DYNAMICS LEADING TO THE RUPTURE. FREITAS DO AMARAL DIVIDED THE REASON FOR THE CDS RUPTURE WITH THE PS INTO PROBLEMS WITHIN THE CDS ITSELF AND THOSE REGARDING ITS POLICY DIFFERENCES WITH THE SOCIALISTS (THE FORMER BEING OBVIOUSLY DIRECTLY DERIVATIVE FROM THE LATTER). CDS RANK-AND-FILE DISCONTENT, HE SAID, HAD BEEN BUILDING UP ALMOST FROM THE ONSET OF THE SECOND CONSTITUTIONAL GOVERNMENT IN JANUARY. THIS DISCONTENT WITH WHAT CDS SUPPORTERS REGARDED AS THEIR PARTY BEING "USED" BY THE SOCIALISTS CONFIDENTIAL.

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REACHED A CRESCENDO IN JULY. THE AGRICULTURAL PRODUCERS CONFEDERATION (CAP) THE INDUSTRIAL CONFEDERATION (CIP), CERTAIN MEMBERS OF THE CATHOLIC CHURCH HIERARCHY, AS WELL AS THE CATHOLIC RADIO STATION, RADIO RENASCENA, WERE ATTACKING THE GOVERNMENT CONSTANTLY IN WHAT FREITAS DO AMARAL DESCRIBED AS A STATE OF "FURY". THE CDS' MOVES IN LATE JULY TO LAY DOWN THE GAUNTLET TO THE SOCIALISTS WERE THEREFORE NOT THE RESULT OF PRESSURE ON THE PARTY FROM ITS RIGHT-WING MEMBERS, AS ALLEGED BY THE LEFT, BUT A GRASS-ROOTS SENTIMENT INVOLVING, AS HE PUT IT, 99.9 PERCENT OF THE PARTY. THE EXTENT OF THE GRASS-ROOTS REVOLT WAS BROUGHT HOME TO THE LEADERSHIP WHEN IT ATTEMPTED TO ORGANIZE THE JULY CELEBRATION OF THE 4TH ANNIVERSARY OF THE PARTY'S FOUNDING. CONSCIOUS OF THE DISCONTENT IN CDS RANKS, THE LEADERSHIP CHOSE WHAT IT REGARDED AS ITS "SAFEST" DISTRICT, THAT OF AVEIRO, WHERE IT HAD BEST ORGANIZATION AND VOTING SUPPORT. HOWEVER, 10 OF THE 12 PARTY ORGANIZATIONS COMPRISING THE AVEIRO DISTRICT REJECTED THE PROPOSAL TO HOLD THE NATIONAL CELEBRATION THERE.

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 6593

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

CUEHMO/AMEMBASSY MOSCOW 2146

AMCONSUL OPORTO

AMEMBASSY PARIS

AMCONSUL PONTA DELGADA

USMISSION USNATO

DIA WASHDC

USNMR SHAPE BEL

COMUSFOCAZ

UUCICCEUR VAIHINGEN GER

AMEMBASSY ROME

AMEMBASSY BRUSSELS

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- 4. FREITAS THEN DETAILED THE POLICY PROBLEMS THAT HAD LED TO SUCH PROFOUND ALIECATION OF THE PARTY RANK-AND-FILE WITH THE LEADERSHIP.
- A) PATRONAGE. THIS WAS PROBABLY THE LEAST IMPORTANT FACTOR, BUT WAS SYMPTOMATIC. IT HAD BEEN AGREED WITH THE SOCIALISTS THAT THE CDS WOULD SHARE IN THE APPOINTMENT OF CIVIL GOVERNORS. ONLY AFTER FOUR MONTHS OF PUSHING ON THIS POINT DID THE CDS OBTAIN TWO CIVIL CONFIDENTIAL

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GOVERNOR POSITIONS OUT OF 18.

B) AGRARIAN REFORM. PART OF THE PS/CDS AGREEMENT WAS THAT THE PAST POLICY OF SCRUPULOUSLY CARRYING OUT THE AGRARIAN RFORM LAW WOULD BE ADHERED TO. FREITAS DO AMARAL TRIED UNSUCCESSFULLY TO PERSUADE SOARES TO KEEP ANTONIO BARRETO ON AS MINISTER OF AGRICULTURE. THE APPOINTMENT OF LUIS SAIAS TO THAT POST CAUSED CDS CONSTERNATION SINCE HE HAD THE REPUTATION OF BEING CLOSE TO THE COMMUNISTS. FREITAS DOHAMARAL LUNCHED WITH SAIAS ON THE FIRST DAYS OF THE NEW GOVERNMENT AND POINTED OUT THAT AGRARIAN POLICY WAS EXTREMELY IMPORTANT TO THE CDS. HE TOLD SAIAS OF THE SUSPICIONS IN THE CDS AND ELSEWHERE REGARDING SAIAS' POLITICS. HE SUGGESTED THAT SAIAS TAKE SOME ACTION EARLY ON TO ESTABLISH HIS CREDIBILITY. THERE WERE 40 RESERVE AREAS THAT HAD ALREADY BEEN IDENTIFIED FOR RETURN TO THEIR FORMER OWNERS BUT WERE AWAITING MINISTERIAL APPROVAL. HE SUGGESTED SAIAS MOVE IMMEDIATELY TO RETURN THESE FARMS. SAIAS REFUSED BUT SAID HE MIGHT BE ABLE TO DO SO WITHIN A FEW WEEKS OR MONTHS. WHEN THE MATTER WAS RAISED AGAIN HE USED THE EXCUSE THAT THE REQUIRED REGULATIONS HAD NOT BEEN DRAFTED. THE CDS THEN WENT TO WORK AND SWEATED OUT GETTING THE REGULATIONS APPROVED, A PROCESS OF MONTHS. AT THE SAME TIME IT BECAME OBVIOUS THAT BARRETO'S MEN IN THE MINISTRY, WHO WERE ANATHEMA TO THE COMMUNISTS, WERE BEING REPLACED BY PERSONS WHO WERE EITHER OUT-AND-OUT COMMUNISTS OR CLOSE TO THEM. THE CROWNING BLOW WAS WHEN A PERSONALITY REGARD-ED AS BEING LEFT OF THE SOCIALIST PARTY WAS APPOINTED SECRETARY GENERAL OF THE MINISTRY. THE CDS OBJECTED VIOLENTLY AND IT WAS AGREED THAT IF ANOTHER JOB COULD BE FOUND FOR THE MAN THE SOCIALISTS WOULD AGREE TO MOVE CONFIDENTIAL.

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HIM. THE CDS FOUND HIM ANOTHER JOB IN THE GOVERNMENT AT TWICE THE PAY BUT THE MAN REFUSED TO LEAVE THE MINISTRY.

C) INDEMNITIES FOR EXPROPRIATION. FREITAS DO AMARAL SAID THAT THE PS/CDS COMMITMENT TO INDEMNIFY OWNERS OF EXPROPRIATED PROPERTY WAS IMPORTANT NOT JUST TO THE BIG CAPITALISTS, AS THE LEFT ALLEGES, BUT TO THOUSANDS OF INDIVIDUALS WHO HAD SUFFERED BECAUSE OF THE TAKEOVER OF BUSINESS ENTERPRISES. THE PS/CDS AGREEMENT PROVIDED THAT THE INDEMNITIES WOULD BE AUTHORIZED BY JUNE 30. EACH TIME THE CDS TOOK THE MATTER UP WITH THE PS THEY WERE PUT OFF AND THERE WAS NO PROGRESS MADE.

D) THE NATIONAL HEALTH INSURANCE SCHEME. THE CDS EARLY ON TOLD SOARES THAT WHILE IT COULD SUPPORT THE CREATION OF A NATIONAL HEALTH INSURANCE PROGRAM, IT COULD NOT

AFFORD POLITICALLY TO HAVE THIS PRESENTED AS A "SOCIALIST CONQUEST". IT WOULD HAVE TO BE WORKED OUT AND PRESENTED TO THE PUBLIC AS A PS/CDS PROGRAM. IN SPITE OF SOARES' AGREEMENT, THE HEALTH MINISTER CAMPAIGNED AROUND THE COUNTRY ON THE BASIS THAT HIS PLAN WAS PART OF "BRINGING SOCIALISM" ITO THE COUNTRY.

E) INTERPARTY RELATIONS. FREITAS DO AMARAL SAID THAT HE RAISED ALL THESE ISSUES WITH SOARES PERSONALLY INNUMERABLE TIMES. HE ALSO WROTE LETTERS TO SOARES REGARDING THESE PROBLEMS. THERE WAS ALSO A SUMMIT MEETING IN LATE MAY BETWEEN THE TWO PARTIES TO DISCUSS CDS GRIEVANCES. NONE OF THESE EFFORTS RESULTED IN MORE THAN PROMISES FROM SOARES. JUST BEFORE SOARES WENT OFF TO HIS VACATION IN LATE JULY, FREITAS DO AMARAL WARNED HIM THAT THE SITUATION, ESPECIALLY ON AGRARIAN REFORM, COULD BRING DOWN THE GOVERNMENT. THUS, IT WAS INGENUOUS OF SOARES TO EXPRESS HIS SURPRISE WHEN THE CDS NATIONAL COUNCIL MEETING A FEW DAYS LATER MADE ITS

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GRIEVANCES PUBLIC. FREITAS DO AMARAL HAD ALREADY ASKED SOARES TO AT LEAST FIRE SAIAS SO THAT A SIGN COULD BE GIVEN TO THE CDS RANK AND FILE THAT THE PARTY LEADERS WERE HAVING SOME IMPACT, BUT SOARES REFUSED TO DO SO, TELLING FREITAS DO AMARAL THAT "YOU WILL SEE, SAIAS WILL TURN OUT TO BE A GOOD MINISTER."

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O R 041826Z AUG 78 FM AMEMBASSY LISBON TO SECSTATE WASHDC IMMEDIATE 6594 INFO AMEMBASSY BONN AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION USNATO
DIA WASHDC
USNMR SHAPE BEL
COMUSFORAZ
USCINCEUR VAIHINGEN GER
AMEMBASSY ROME
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5. THE COMMUNIST CONNECTION. FREITAS DO AMARAL SAID THAT ANOTHER SIGN THAT THE PS WAS NOT LIVING UP TO THE ACCORD WAS THE FACT THAT THE COMMUNIST PARTY DID NOT MOUNT ANY MAJOR ATTACKS ON THE SECOND CONSTITUTIONAL GOVERNMENT, AND INDEED PRAISED SOARES ON SPECIFIC ISSUES SUCH AS THE CONDUCT OF THE AGRARIAN REFORM POLICY. IF ONE EXAMINES THE PCP'S DEMANDS IN JANUARY WHEN THE PS WAS TRYING TO WORK OUT AN INTERPARTY AGREEMENT WITH THE COMMUNISTS, ONE IS STRUCK BY THE FACT THAT ALL OF THE DEMANDS OF THE CONFIDENTIAL

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COMMUNISTS WERE SUBSEQUENTLY MET BY THE PS/CDS GOVERNMENT. TRUE, AS A RESULT, THE COMMUNISTS DID NOT MAKE TROUBLE IN THE LABOR FIELD, BUT IT WAS HIS VIEW THAT THE PRICE FOR BUYING INDUSTRIAL PEACE THAT SOARES HAD BEEN WILLING TO PAY WAS MUCH TOO HIGH. THE EFFECT, HE SAID, WAS TANTAMOUNT TO A TACIT ADMISSION THAT THE COMMUNIST PARTY HAD A VETO ON KEY POLICIES OF ANY PORTUGUESE GOVERNMENT. IT IS IRONIC, HE ADDED, THAT A STALINIST PARTY SEEMS TO BE ABLE TO GET MORE IN PORTUGAL THAN THE EUROCOMMUNIST PARTIES ELSEWHERE IN WESTERN EUROPE.

6. THE FUTURE. CDS CANNOT AGREE TO SIMPLY REINSTATE THE OLD PS/CDS ACCORD. TO DO SO WOULD BE POLITICAL SUICIDE.
ON THE OTHER HAND, THE PS HAS DECLARED ITSELF UNWILLING TO WORK OUT A NEW ACCORD. THE ONLY SOLUTION, THEREFORE, SEEMS TO BE THE ONE OFFERED BY EANES: A GOVERNMENT OF PRESIDENTIAL INITIATIVE BASED ON PARLIAMENTARY SUPPORT. THE MEMBERS OF THE GOVERNMENT WOULD BE DRAWN FROM THE PARTIES BUT BE IN GOVERNMENT AS INDIVIDUALS. THE PROBLEM WITH THIS SOLUTION IS THAT THE SOCIALISTS HAVE BEEN SAYING PRIVATELY THAT THEY WILL NOT PERMIT THEIR MEMBERS TO PARTICIPATE IN SUCH A GOVERNMENT, AND THAT THE MOST THAT THEY MIGHT DO IS ALLOW

IT TO TAKE OFFICE BY NOT VOTING AGAINST ITS PROGRAM WHEN PRESENTED TO THE ASSEMBLY. UNDER THOSE CIRCUMSTANCES, THE MOST THAT COULD BE HOPED FOR WOULD BE THAT SUCH A GOVERNMENT WOULD BE ALLOWED TO REVISE THE ELECTORAL LAW AND DO THE NEW REGISTRATION OF VOTERS TO PERMIT ELECTIONS. ALL THIS WOULD TAKE SIX MONTHS OR MORE. HOLDING ELECTIONS ON THE BASIS OF THE PRESENT ELECTORAL LAW WOULD BE DANGEROUS, BECAUSE THE ELECTIONS COULD BE CHALLENGED AS HAVING BEEN ILLEGAL.

7. I TOLD FREITAS DO AMARAL THAT WHAT CONCERNED ME THE MOST WAS THAT A GOVERNMENT OF PRESIDENTIAL INITIATIVE LACKING CONFIDENTIAL

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THE PARTICIPATION OF THE SOCIALISTS WOULD BE HARD-PRESSED TO CARRY OUT THE ECONOMIC POLICIES ALREADY SET IN TRAIN AND TO PREPARE THE PLANS AND PROGRAMS THAT WOULD BE A BASIS FOR INTERNATIONAL ASSISTANCE TO PORTUGAL IN EITHER THE SHORT OR MEDIUM TERM. IN THE MEANTIME THE ECONOMIC SITUATION WAS LIKELY TO DETERIORATE AND THIS WAS A SERIOUS THREAT TO THE SURVIVAL OF PORTUGUESE DEMOCRACY IN THE LONGER RUN. HE AGREED AND HE TOLD ME THAT HE WOULD BE SEEING SOARES TOMORROW AND WOULD ATTEMPT TO PERSUADE SOARES THAT THE SOCIALISTS SHOULD PARTICIPATE IN THE NEXT GOVERNMENT. HE POINTED OUT TO ME THAT THE CDS' STATEMENT OF YESTERDAY REGARDING ITS OWN WILLINGNESS TO DO SO HAD INCLUDED THE CONDITION THAT THE NEW GOVERNMENT CONTINUE WITH THE STABILIZATION PROGRAM THAT HAD BEEN BEGUN BY THE LAST GOVERNMENT.

8. I TOLD FREITAS DO AMARAL THAT I WAS ALSO WORRIED BECAUSE IT APPEARED THAT THE TWO KEY ACTORS IN THE SITUATION, THE PRESIDENT AND SOARES, WERE NOT AT THIS POINT TALKING TO ONE ANOTHER. I SAID THAT SOARES WAS PROBABLY REFUSING TO MAKE THE FIRST MOVE BECAUSE OF HIS WOUNDED FEELINGS AT HAVING BEEN DISMISSED BY EANES. I POINTED OUT THAT THE PRESIDENT COULD PERHAPS MORE EASILY TAKE THE INITIATIVE, SINCE UNDER THE CONSTITUTION HE WAS OBLIGED TO CONSULT WITH THE PARTIES BEFORE FORMING A NEW GOVERNMENT. FREITAS DO AMARAL AGREED AND SAID THAT HE EXPECTED TO BE SEEING EANES THIS WEEKEND AS WELL, AND WOULD ENCOURAGE HIM TO INVITE SOARES FOR PRIVATE TALKS.

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